

4293C:1592/008

Annex D

CERTIFICATE FOR DRAWING IN CONNECTION WITH THE PAYMENT OF
PRINCIPAL OF AND INTEREST ON THE
ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY
ADJUSTABLE CONVERTIBLE EXTENDABLE SECURITIES,
HOSPITAL REVENUE BONDS (ALLEGHENY HEALTH, EDUCATION
AND RESEARCH CORPORATION) SERIES 1988A THROUGH SERIES 1988D
(THE "BONDS") IN SUPPORT OF A TENDER ("TENDER DRAFT")

The undersigned, a duly authorized officer of the undersigned [Trustee/Tender Agent] (the ["Trustee"/"Tender Agent"]) hereby certifies to Pittsburgh National Bank ("the Bank"), with reference to Irrevocable Letter of Credit No. 52891-IC (the "Letter of Credit"; any capitalized terms used herein and not defined shall have the respective meaning set forth in the Letter of Credit) issued by the Bank in favor of the [Trustee/Tender Agent], as follows:

(1) The [Trustee/Tender Agent] is the [Trustee/Tender Agent] under the Indenture for the holders of the Bonds.

(2) The [Trustee/Tender Agent] is making a drawing under the Letter of Credit with respect to the payment, upon a tender of Bonds which are Outstanding under the Indenture, of the purchase price of Bonds which, to our knowledge, have not been remarketed by the Remarketing Agent ("Unmarketed Bonds") and which, accordingly, are to be purchased by or on behalf of the Corporation as a result of such tender pursuant to the terms of the Indenture (other than Bonds presently held of record by one or more Obligated Affiliates or by the Trustee or the Tender Agent for the account of one or more Obligated Affiliates), which payment is due on _____.

(3) The amount of the Tender Draft accompanying this Certificate is equal to the sum of (i) \$_____ being drawn in respect of the payment of unpaid principal of Unmarketed Bonds (other than Bonds presently held of record by one or more Obligated Affiliates or by the

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Trustee or the Tender Agent for the account of one or more Obligated Affiliates) to be purchased by or on behalf of the Corporation as a result of a tender, which amount does not exceed the Principal Component, and (ii) if such purchase is not to occur on a regularly scheduled interest payment date (in which event an Interest Draft is required), \$_____ being drawn in respect of the payment of accrued and unpaid interest on such Unmarketed Bonds, which amount does not exceed the Interest Component. The amount of the Tender Draft accompanying this Certificate does not include any amount of interest which is included in any Interest Draft, Partial Principal Draft or Final Draft presented on or prior to the date of this Certificate.

(4) The amount of the Tender Draft accompanying this Certificate was computed in compliance with the terms and conditions of the Bonds and the Indenture and does not exceed the amount available to be drawn under the Letter of Credit.

The [Trustee/Tender Agent] acknowledges that, pursuant to the terms of the Letter of Credit, upon the Bank's honoring the Tender Draft accompanying this Certificate, (a) the Letter of Credit Amount and the amounts available to be drawn by the Trustee or Tender Agent thereunder by any subsequent Tender Draft, Partial Principal Draft or Final Draft are automatically decreased by an amount equal to the amount of such Tender Draft so that \$_____ is the remaining amount available to be drawn by the Trustee or Tender Agent under the Letter of Credit, \$_____ of which represents the Principal Component and \$_____ of which represents the Interest Component (subject to possible reinstatement as provided therein).

Please [deposit/wire transfer] the amount hereby demanded [in our account number _____ with _____/ to _____ at _____].

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IN WITNESS WHEREOF, the [Trustee/Tender Agent] has
executed and delivered this Certificate as of the ____ day
of _____, 19__

MELLON BANK, N.A.,
as [Trustee/Tender Agent]

By _____
[Name and Title]

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Annex E

CERTIFICATE FOR DRAWING IN CONNECTION WITH THE PAYMENT OF
PRINCIPAL OF AND INTEREST ON THE ALLEGHENY
COUNTY HOSPITAL DEVELOPMENT AUTHORITY ADJUSTABLE
CONVERTIBLE EXTENDABLE SECURITIES, HOSPITAL
REVENUE BONDS (ALLEGHENY HEALTH, EDUCATION AND RESEARCH
CORPORATION) SERIES 1988A THROUGH SERIES 1988D (THE "BONDS")
UPON PARTIAL MANDATORY OR OPTIONAL REDEMPTION
OR PAYMENT UPON MATURITY OF A PORTION OF THE BONDS
("PARTIAL PRINCIPAL DRAFT")

The undersigned, a duly authorized officer of the undersigned Trustee (the "Trustee") hereby certifies to Pittsburgh National Bank ("the Bank"), with reference to Irrevocable Letter of Credit No. 52891-IC (the "Letter of Credit"; any capitalized terms used herein and not defined shall have the respective meaning set forth in the Letter of Credit) issued by the Bank in favor of the Trustee, as follows:

(1) The Trustee is the Trustee under the Indenture for the holders of the Bonds.

(2) The Trustee is making a drawing under the Letter of Credit in connection with (check and complete one or more):

- _____ An optional redemption of less than all of the Bonds outstanding under the Indenture in the principal amount of \$ _____ pursuant to the Indenture.
- _____ A mandatory redemption of less than all of the Bonds outstanding under the Indenture in the principal amount of \$ _____ pursuant to the Indenture.
- _____ A payment at maturity of \$ _____ principal amount of Bonds outstanding under the Indenture (which constitutes less than all Bonds outstanding under the Indenture).

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None of such Bonds is presently held of record by any Obligated Affiliate or by the Trustee or the Tender Agent for the account of any Obligated Affiliate and such payment is due on _____.

(3) The amount of the Partial Principal Draft accompanying this Certificate is equal to the sum of (i) \$_____ being drawn in respect of the payment of unpaid principal of Bonds (other than Bonds presently held of record by any Obligated Affiliate by the Trustee or the Tender Agent for the account of any Obligated Affiliate) to be redeemed or paid at maturity, which amount does not exceed the Principal Component, and (ii) if in connection with an optional or mandatory redemption and if such redemption is not to occur on a regularly scheduled interest payment date (in which event an Interest Draft is required), \$_____ being drawn in respect of the payment of accrued and unpaid interest on such Bonds, which amount does not exceed the Interest Component. Such amounts do not include any amount of interest on the Bonds which is included in any Interest Draft, Tender Draft or Final Draft presented on or prior to the date of this Certificate.

(4) The amount of the Partial Principal Draft accompanying this Certificate was computed in accordance with the terms and conditions of the Bonds and the Indenture and does not exceed the amount available to be drawn under the Letter of Credit.

[(5) This Partial Principal Draft involves an optional redemption and the Bank's prior written consent to such optional redemption is attached hereto.]

or

[(5) This Partial Principal Draft does not involve an optional redemption and no prior written consent of the Bank is required.]

The Trustee acknowledges that, pursuant to the terms of the Letter of Credit, upon the Bank's honoring the Partial Principal Draft accompanying this Certificate, the Letter of

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Credit Amount and the amounts available to be drawn by the Trustee or the Tender Agent thereunder by any subsequent Interest Draft, Partial Principal Draft, Tender Draft or Final Draft are automatically decreased in accordance with the terms of the Letter of Credit. Upon receipt of the amount of the draft accompanying this Certificate, the Trustee promptly will submit a Certificate for Reduction of Amounts Available in the form of Annex H to the Letter of Credit.

Please [deposit/wire transfer] the amount hereby demanded [in our account number _____ with _____/ to _____ at _____].

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the ____ day of _____, 19__

MELLON BANK, N.A.,
as Trustee

By _____
[Name and Title]

The undersigned, a duly authorized officer of Pittsburgh National Bank, hereby consents to the submission of the Partial Principal Draft referred to above.*

PITTSBURGH NATIONAL BANK

By: _____
Health Care Group

Dated: _____, 19__

*This consent is required only if the Partial Principal Draft involves an optional redemption of the Bonds.

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Annex F

CERTIFICATE FOR DRAWING IN CONNECTION WITH THE PAYMENT OF
PRINCIPAL OF AND INTEREST ON THE ALLEGHENY
COUNTY HOSPITAL DEVELOPMENT AUTHORITY ADJUSTABLE
CONVERTIBLE EXTENDABLE SECURITIES, HOSPITAL REVENUE BONDS
(ALLEGHENY HEALTH, EDUCATION AND RESEARCH CORPORATION)
SERIES 1988A THROUGH SERIES 1988D (THE "BONDS"),
UPON STATED OR ACCELERATED MATURITY OR
MANDATORY OR OPTIONAL REDEMPTION IN WHOLE ("FINAL DRAFT")

The undersigned, a duly authorized officer of the undersigned Trustee (the "Trustee") hereby certifies to Pittsburgh National Bank ("the Bank"), with reference to Irrevocable Letter of Credit No. 52891-IC (the "Letter of Credit"; any capitalized terms used herein and not defined shall have the respective meaning set forth in the Letter of Credit) issued by the Bank in favor of the Trustee, as follows:

(1) The Trustee is the Trustee under the Indenture for the holders of the Bonds.

(2) The Trustee is making a drawing under the Letter of Credit with respect to the payment, either at stated maturity, upon acceleration or upon a redemption in whole of all of the Bonds which are outstanding under the Indenture, of the unpaid principal amount of, and, to the extent set forth below, accrued and unpaid interest on, all of the Bonds which are outstanding under the Indenture (other than Bonds presently held of record by any Obligated Affiliate or by the Trustee or the Tender Agent for the account of any Obligated Affiliate), which payment is due on _____.

(3) The amount of the Final Draft accompanying this Certificate is equal to (i) the sum of (A) \$_____ being drawn in respect of the payment of unpaid principal of Bonds (other than Bonds presently held of record by any Obligated Affiliate or by the Trustee or the Tender Agent for the account of any Obligated Affiliate), which

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amount does not exceed the Principal Component, and (B) if such payment is not to occur on a regularly scheduled interest payment date (in which event an Interest Draft is required), \$_____ being drawn in respect of the payment of accrued and unpaid interest on such Bonds, which amount does not exceed the Interest Component. The amount of the Final Draft accompanying this Certificate does not include any amount of interest on the Bonds which is included in any Interest Draft, Tender Draft or Partial Principal Draft presented on or prior to the date of this Certificate.

(4) The amount of the Final Draft accompanying this Certificate was computed in compliance with the terms and conditions of the Bonds and the Indenture and does not exceed the amount available to be drawn under the Letter of Credit.

[(5) This Final Draft involves an optional redemption and the Bank's prior written consent to such optional redemption is attached hereto.]

or

[(5) This Final Draft does not involve an optional redemption and no prior written consent of the Bank is required.]

Please [deposit/wire transfer] the amount hereby demanded [in our account number _____ with _____/ to _____ at _____]. Upon receipt of such amount, we shall promptly surrender the Letter of Credit to you.

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IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the ____ day of _____, 19__

MELLON BANK, N.A.,
as Trustee

By _____
[Name and Title]

The undersigned, a duly authorized officer of Pittsburgh National Bank, hereby consents to the submission of the Final Draft referred to above.*

PITTSBURGH NATIONAL BANK

By _____
Health Care Group

Dated: _____, 19__

*This consent is required only if the Final Draft involves an optional redemption of the Bonds.

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Annex G

NOTICE OF NON-REINSTATEMENT OF LETTER OF CREDIT

[Date]

Mellon Bank, N.A.,
as Trustee and Tender Agent
under the Indenture
referred to below
One Mellon Bank Center
Pittsburgh, Pennsylvania 15258

Attention: Corporate Trust Group

Gentlemen:

Reference is made to Irrevocable Letter of Credit No. 52891-IC (the "Letter of Credit") dated February 24, 1988, issued by us in your favor, as Trustee and Tender Agent under a Trust Indenture dated as of February 1, 1988 by and between the Allegheny County Hospital Development Authority (the "Issuer") and you, pursuant to which the Issuer has issued \$60,000,000 in aggregate principal amount of its Adjustable Convertible Extendable Securities, Hospital Revenue Bonds (Allegheny Health, Education and Research Corporation) Series 1988A through Series 1988D (the "Bonds").

This constitutes our notice to you pursuant to paragraph 3 of the Letter of Credit that, until such time as this notice may be revoked by us, amounts drawn under the Letter of Credit shall not be reinstated as therein provided because an Event of Default (as defined in the Letter of Credit, Reimbursement and Security Agreement dated as of February 1, 1988 between Allegheny Health, Education and Research Corporation and us) has occurred

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and is continuing and you are directed to declare the principal amount of all of the Bonds outstanding to be immediately due and payable.

Very truly yours,

PITTSBURGH NATIONAL BANK

By: _____
Name:
Title:

PNC19010

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Annex H

CERTIFICATE FOR REDUCTION OF AMOUNTS AVAILABLE UNDER
IRREVOCABLE LETTER OF CREDIT NO. 52891-IC

The undersigned, a duly authorized officer of the undersigned Trustee (the "Trustee") hereby certifies to Pittsburgh National Bank ("the Bank"), with reference to Irrevocable Letter of Credit No. 52891-IC (the "Letter of Credit"; any capitalized terms used herein and not defined shall have the respective meaning set forth in the Letter of Credit) issued by the Bank in favor of the Trustee and the Tender Agent, as follows:

(1) The Trustee is the Trustee under the Indenture for the holders of the Bonds.

(2) The Trustee hereby notifies you that on or prior to the date hereof

(a) \$_____ principal amount of the Bonds have been redeemed, paid at maturity or otherwise paid and are no longer Outstanding pursuant to the Indenture; and/or

(b) \$_____ principal amount of the Bonds have been converted to a Fixed Rate (as defined therein) and are no longer secured by the Letter of Credit.

(3) Following the redemption, payment or conversion referred to in paragraph (2) above, the aggregate principal amount of all of the Bonds which remain outstanding under the Indenture and are secured by the Letter of Credit is \$_____.

(4) The maximum amount of interest, computed at the rate of 15% per annum and otherwise in accordance with the terms and conditions of the Bonds and the Indenture, which could accrue on the Bonds referred to in paragraph (3) above in the period permitted to be covered under the Letter of Credit is \$_____.

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(5) The amount available to be drawn by the Trustee under the Letter of Credit by any Interest Draft is reduced to \$_____ (such amount being equal to the amount specified in paragraph (4) above) upon receipt by the Bank of this Certificate.

(6) The amount available to be drawn by the Trustee or the Tender Agent under the Letter of Credit by any Tender Draft, Partial Principal Draft or Final Draft is reduced to \$_____ (such amount being equal to the sum of the amounts specified in paragraphs (3) and (4) above) upon receipt by the Bank of this Certificate.

(7) The Letter of Credit Amount is reduced to \$_____ (such amount being equal to the sum of the amounts specified in paragraphs (3) and (4) above) upon receipt by the Bank of this Certificate.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of the ____ day of _____, 19__

MELLON BANK, N.A.,
as Trustee

By _____
[Name and Title]

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Annex I

CERTIFICATE FOR THE REINSTATEMENT OF AMOUNTS DRAWN UNDER
IRREVOCABLE LETTER OF CREDIT NO. 52891-IC
BY ONE OR MORE TENDER DRAFTS

The undersigned, a duly authorized officer of the undersigned (the ["Trustee"/"Tender Agent"]) hereby certifies to Pittsburgh National Bank ("the Bank"), with reference to Irrevocable Letter of Credit No. 52891-IC (the "Letter of Credit"; any capitalized terms used herein and not defined shall have the respective meaning set forth in the Letter of Credit) issued by the Bank in favor of the Trustee, as follows:

(1) The [Trustee/Tender Agent] is the [Trustee/Tender Agent] under the Indenture for the holders of the Bonds.

(2) The amount of \$_____ paid or wired in immediately available funds to the Bank today by or on behalf of Allegheny Health, Education and Research Corporation (the "Corporation") is a payment made to reimburse the Bank, pursuant to the Letter of Credit, Reimbursement and Security Agreement dated as of February 1, 1988 between the Corporation and the Bank (the "Reimbursement Agreement") for amounts drawn under the Letter of Credit by one or more Tender Drafts.

(3) Of the amount referred to in paragraph (2), \$_____ represents \$_____, the aggregate principal face amount of Bonds resold or to be resold on behalf of the Corporation.

(4) Of the amount referred to in paragraph (2), \$_____ represents accrued and unpaid interest on Bonds.

(5) The Letter of Credit Amount should be increased to \$_____ (such amount being equal to the sum of the amounts specified in paragraphs (3) and (4) above plus \$_____, the Letter of Credit Amount prior to such payment).

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IN WITNESS WHEREOF, the [Trustee/Tender Agent] has
executed and delivered this Certificate as of the ____ day
of _____, 19__

MELLON BANK, N.A.,
as [Trustee/Tender Agent]

By _____
[Name and Title]

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Annex J

INSTRUCTION TO TRANSFER

_____, 19__

Pittsburgh National Bank
Fifth Avenue and Wood Street
Pittsburgh, Pennsylvania 15265

Attention: International Banking Division/ Letter of Credit
Department

Re: Irrevocable Letter of Credit No. 52891-IC

Gentlemen:

For value received, the undersigned beneficiary hereby
irrevocably transfers to:

[Name of Transferee]

[Address]

[all rights of the undersigned beneficiary/that portion of the
rights of the undersigned as Trustee/that portion of the rights
of the undersigned as Tender Agent] to draw under the
above-captioned Letter of Credit (the "Letter of Credit") issued
by you in favor of the undersigned. The transferee has succeeded
the undersigned as [Trustee and Tender Agent/Trustee/Tender
Agent] under the Indenture (as defined in the Letter of Credit).

By this transfer, [all rights of the undersigned
beneficiary/that portion of the rights of the undersigned as

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Trustee/that portion of the rights of the undersigned as Tender Agent] in the Letter of Credit are transferred to the transferee and the transferee shall hereafter have the [sole rights/such rights] as beneficiary thereof; provided, however, that no rights shall be deemed to have been transferred to the transferee until such transfer complies with the requirements of the Letter of Credit pertaining to transfers.

The Letter of Credit is returned herewith and in accordance therewith we ask that this transfer be effective and that you transfer the Letter of Credit to our transferee or that, if so requested by the transferee, you issue a new irrevocable letter of credit in favor of [the transferee/each of the transferee and the undersigned] with provisions consistent with the Letter of Credit [and reflecting the respective interests of the transferee and the undersigned under the Letter of-Credit after such transfer].

Very truly yours,

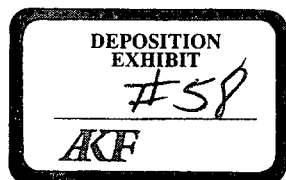
as predecessor [Trustee
and Tender Agent/Trustee/
Tender Agent]

By _____
[Name and Title]

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Allegheny Health, Education and Research Foundation

*Consolidated
Financial
Statements
for the
year ended
June 30, 1997*



TN CBC43B 00893

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

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Coopers
& Lybrand

Coopers & Lybrand LLP

a professional services firm

Report of Independent Accountants

To the Board of Trustees of
Allegheny Health, Education and Research Foundation:

We have audited the accompanying consolidated balance sheet of Allegheny Health, Education and Research Foundation as of June 30, 1997 and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended. These consolidated financial statements are the responsibility of Allegheny Health, Education and Research Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Allegheny Health, Education and Research Foundation as of June 30, 1997 and the consolidated results of its operations, changes in net assets, and cash flows for the year then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand LLP

Pittsburgh, Pennsylvania

September 4, 1997, except for the second paragraph of Note 16 which is dated September 12, 1997, and Note 17 which is dated January 8, 1998

TN CBC43B 00895

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

CONSOLIDATED BALANCE SHEET

as of June 30, 1997

(Dollars in Thousands)

ASSETS

Current assets:	
Cash and cash equivalents	\$ 20,516
Short-term investments	3,804
Assets limited or restricted as to use	73,922
Receivables:	
Patient accounts, less allowance for uncollectible	
accounts of \$127,424	367,061
Grants and other	92,119
Inventories	33,466
Prepaid expenses	15,168
Total current assets	606,056
Assets limited or restricted as to use, net of current portion	780,821
Property and equipment, net	920,870
Other assets	315,933
Total assets	<u>\$ 2,623,680</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable and accrued expenses	\$ 489,522
Deferred revenue	16,373
Line of credit	57,100
Current portion of long-term debt	34,704
Total current liabilities	597,699
Long-term debt, net of current portion	960,273
Self-insurance liabilities	91,841
Other noncurrent liabilities, includes \$20,249 of deferred revenue	149,101
Total liabilities	1,798,914
Net assets:	
Unrestricted	569,796
Restricted:	
Temporarily	110,758
Permanently	144,212
Total net assets	824,766
Total liabilities and net assets	<u>\$ 2,623,680</u>

The accompanying notes are an integral part of the consolidated financial statements.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended June 30, 1997

(Dollars in Thousands)

Unrestricted revenues, gains and other support:	
Net patient service revenue	\$ 1,702,671
Research and training support	71,524
Academic activities	64,434
Investment income	85,953
Net assets released from restrictions used for operations	47,229
Other revenue	<u>83,156</u>
Total revenues, gains and other support	<u>2,054,967</u>
Expenses:	
Salaries, wages and fringe benefits	1,187,601
Materials, supplies and services	700,154
Depreciation and amortization	107,691
Interest	<u>37,595</u>
Total expenses	<u>2,033,041</u>
Net income	21,926
Net assets released from restrictions used for	
acquisition of property and equipment	395
Unrealized depreciation of investments	(9,146)
Transfers to other net assets	(1,667)
Other	<u>(948)</u>
Increase in unrestricted net assets	<u>\$ 10,560</u>

The accompanying notes are an integral part of the consolidated financial statements.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended June 30, 1997

(Dollars in Thousands)

Unrestricted net assets:	
Net income	\$ 21,926
Net assets released from restrictions used for acquisition of property and equipment	395
Unrealized depreciation of investments	(9,146)
Transfers to other net assets	(1,667)
Other	(948)
Increase in unrestricted net assets	10,560
Temporarily restricted net assets:	
Contributions	12,181
Investment income	22,035
Net assets released from restrictions	(46,883)
Unrealized depreciation of investments	(6,009)
Transfers from other net assets	2,473
Acquisition of affiliates	18,015
Other	(8)
Increase in temporarily restricted net assets	1,804
Permanently restricted net assets:	
Contributions	7,560
Investment income	1,105
Unrealized appreciation of investments	9,848
Transfers to other net assets	(806)
Acquisition of affiliates	24,654
Other	(741)
Increase in permanently restricted net assets	41,620
Increase in net assets	53,984
Net assets, beginning of year	770,782
Net assets, end of year	\$ 824,766

The accompanying notes are an integral part of the consolidated financial statements.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended June 30, 1997

(Dollars in Thousands)

Cash flows from operating activities:	
Change in net assets	\$ 53,984
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	107,691
Net realized losses on equity investments	107
Equipment valuation adjustment	(2,204)
Net assets balances related to business combinations	(42,669)
Increase/(decrease) in cash from changes in:	
Short-term investments	7,426
Receivables	(46,021)
Inventories	(1,647)
Prepaid expenses	5,257
Accounts payable and accrued expenses	41,971
Deferred revenue	(9,214)
Self-insurance liabilities	(4,248)
Other	(30,840)
Net cash provided by operating activities	<u>79,593</u>
Cash flows from investing activities:	
Acquisition of property and equipment, net	(112,898)
Acquisition of physician practice assets, net	(12,709)
Acquisition of physician practice intangible assets	(18,864)
Proceeds from sale of property and equipment	34,080
Decrease in assets limited or restricted as to use, net	45,778
Cash balances related to business combinations	<u>11,988</u>
Net cash used by investing activities	<u>(52,625)</u>
Cash flows from financing activities:	
Net drawdowns on lines of credit	10,644
Repayments of long-term debt	<u>(18,635)</u>
Net cash used by financing activities	<u>(7,991)</u>
Net increase in cash and cash equivalents	18,977
Cash and cash equivalents, beginning of year	<u>1,539</u>
Cash and cash equivalents, end of year	<u>\$ 20,516</u>
Supplemental disclosure:	
Cash paid for interest, net of capitalized interest	<u>\$ 43,364</u>

Noncash transactions :

Business combinations

Refer to Note 15

The accompanying notes are an integral part of the consolidated financial statements.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1997

(Dollars in Thousands)

1. Organization:

Allegheny Health, Education and Research Foundation (AHERF), is the parent company of Allegheny General Hospital (AGH); Allegheny University Medical Centers (AUMC); Allegheny University of the Health Sciences (AUHS); Allegheny University Hospitals (AUH); Allegheny Hospitals, Centennial (AH, Centennial); Allegheny Hospitals, New Jersey (AH, New Jersey); St. Christopher's Hospital for Children (St. Christopher's); Diversified Health Group, Inc. (DHG); Allegheny Integrated Health Group (AIHG) and Allegheny Health Services Providers Insurance Company (AHSPIC). AGH, AUMC, AUHS, AUH, AH, Centennial, AH, New Jersey, St. Christopher's, and AIHG are Pennsylvania nonprofit charitable organizations. DHG, incorporated as a for-profit corporation, is wholly owned by AHERF. AHSPIC is a captive insurance company incorporated in the Cayman Islands, which is also wholly owned by AHERF. AHERF's commitment to patient care, education, and research is demonstrated by its operation (through its nonprofit subsidiaries) of twelve acute care hospital facilities, one psychiatric hospital, a pediatric hospital, a medical school, undergraduate and graduate schools of health sciences and humanities, a research institute, and physician practices.

For external debt reporting purposes, AHERF presents certain financial information by various obligated groups. The operating units that comprise the various obligated groups are summarized as follows:

Allegheny General Hospital Obligated Group (AGHOG):
Allegheny General Hospital

Allegheny University Medical Centers Obligated Group:
Allegheny Valley Hospital
Forbes Health System

Allegheny Hospitals, Centennial:
Allegheny University Hospitals, City Avenue
Allegheny University Hospitals, Graduate
Allegheny University Hospitals, Mt. Sinai
Allegheny University Hospitals, Parkview

Delaware Valley Obligated Group (DVOG):
Allegheny University Hospitals, Bucks County
Allegheny University Hospitals, Elkins Park
Allegheny University Hospitals, Hahnemann
Allegheny University Hospitals, MCP
Allegheny University of the Health Sciences
Management Support Services (Corporate Division)
St. Christopher's Hospital for Children

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1997

(Dollars in Thousands)

1. Organization: (continued)

In fiscal year 1997, the Forbes Health System (FHS) and Allegheny Valley Health System (AVH) became part of AUMC via statutory mergers, effective January 1, 1997 and March 1, 1997, respectively. Also, during fiscal year 1997, former Graduate Health System hospitals (Graduate Hospital, Mt. Sinai Hospital, City Avenue Hospital and Parkview Hospital) became part of AH, Centennial and Rancocas Hospital became part of AH, New Jersey via statutory mergers, effective May 1, 1997. The operations of these entities are included in the consolidated statement of operations from their respective dates of merger into the AHERF System. These mergers were accounted for under the purchase method of accounting.

During fiscal year 1997, AHERF purchased one of the largest physician practice groups (along with certain physician practice assets) in the Pittsburgh region, commonly referred to as Penn Group Medical Associates, from Coventry Corporation, which is the owner of HealthAmerica Pennsylvania, Inc. (HealthAmerica). As a result of this acquisition, 76 physicians were added to the AHERF System. In connection therewith, AHERF and HealthAmerica entered into a risk-sharing arrangement whereby AHERF receives certain premium levels to cover the treatment HealthAmerica subscribers receive from AHERF-affiliated physicians. At the time of the acquisition, AHERF assessed and recorded reserves for estimated amounts where costs will exceed premium revenues under this contract.

2. Accounting Policies:

The significant accounting policies applied in preparing the accompanying consolidated financial statements are summarized below:

Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of AHERF and its wholly owned or controlled subsidiaries. All intercompany transactions have been eliminated in consolidation.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1997

(Dollars in Thousands)

2. Accounting Policies: (continued)

Net Income:

Consistent with industry practice, certain changes in unrestricted net assets are excluded from net income, including unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Use of Estimates:

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the amounts reported as revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents:

Cash and cash equivalents include highly liquid investments purchased with a maturity date of three months or less.

Investments and Investment Income:

A majority of AHERF's non-pension investments (including endowment, funded depreciation, and special purpose funds) have been commingled for investment management purposes and are included in the AHERF Non-Pension Master Trust structure (Master Trust). While AHERF's investment program has been centralized, identification of investments by specific entity has been maintained pursuant to the development of an internal accounting system. Investments in the Master Trust consist primarily of domestic and international equities, government obligations, corporate obligations and cash. Investments within the Master Trust are stated at estimated fair value.

AHERF's other investments are carried at estimated fair value and consist generally of investments similar to those in the Master Trust.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1997

(Dollars in Thousands)

2. Accounting Policies: (continued)

Investments and Investment Income: (continued)

Donated investments are recorded at their estimated fair value at the date of contribution. Unrestricted investment income and gains and losses on sales of investments, which are based on average cost, are included in investment income.

Investment Risks:

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the consolidated balance sheet and consolidated statement of operations.

Grants Receivable and Deferred Revenue:

Grants and contracts are recognized in the year in which expenditures are made, either as research support or, in the case of expenditures for property and equipment, as additions to net assets. Receivables are recorded when contract and grant expenditures exceed funds received. Deferrals are recorded when funds received are in excess of expenditures incurred. Additionally, notices of federal and other research grant awards relating to future years have not been recorded.

During fiscal year 1997, AGH sold certain non-clinical assets, which are being leased back by AGH over a twenty year period. Such transaction resulted in a gain, which has been deferred and will be amortized into income over the lease term. The amount of the unamortized gain was \$15,587 at June 30, 1997 and is classified as deferred revenue in the consolidated balance sheet.

Inventories:

Inventories are valued at the lower of average cost or fair value.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1997

(Dollars in Thousands)

2. Accounting Policies: (continued)

Property and Equipment:

Property and equipment, along with expenditures that extend the useful lives of assets, are recorded at cost. Certain internal computer software development costs are capitalized and included in property and equipment. Interest expense associated with the construction of major capital additions is capitalized and included in property and equipment. Maintenance and repairs are charged to expense as incurred. At the time assets are retired or otherwise disposed of, the cost thereof and the related accumulated depreciation or amortization are eliminated and any resulting gain or loss on disposition is recorded as other revenue.

Depreciation is provided over the estimated useful lives of the assets computed under the straight-line method, with one-half year of depreciation recognized in the year when the related assets are placed into service.

Other Assets:

Other assets consist primarily of bond financing costs, equity investments and investments in other joint ventures, organizational costs, program development costs, goodwill, covenants not-to-compete, and cash surrender values on life insurance policies. Bond financing costs are being amortized over the respective terms of the related bond issues on a basis that approximates the interest method. AHERF has a 33% ownership interest in Gateway Health Plan, L.P. (Gateway). AHERF's share of income from its Gateway investment for fiscal year 1997 was \$2,240. Deferred organizational costs are being amortized over five years, program development costs over three years, goodwill over ten to thirty-five years, and covenants not-to-compete over five to fifteen years. The cost and related accumulated amortization of such costs was \$228,534 and \$10,020 at June 30, 1997, respectively.

AHERF evaluates the recoverability of its intangible assets at each balance sheet date in accordance with Statement of Financial Accounting Standards (SFAS) No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. SFAS No. 121 establishes criteria for recognizing, measuring, and disclosing impairments of long-lived assets.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1997

(Dollars in Thousands)

2. Accounting Policies: (continued)

Restricted Net Assets:

Temporarily restricted net assets are those whose use has been limited by donors for a specific purpose or time period. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Temporarily restricted assets released from restriction during the reporting period are reflected in the consolidated statement of operations.

Net Patient Service Revenue:

AHERF has agreements with third-party payors that provide for payments to AHERF facilities at amounts different from their established rates. Payment arrangements include prospectively determined rates based upon discharges, discounted charges, per diem payments and capitation arrangements. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated net retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care, Uncompensated Care and Other Community Services:

AHERF's facilities maintain charity care policies which were established to assure that all persons seeking treatment receive needed health care services regardless of their ability to pay. These policies provide that persons who lack the means to pay for all or a portion of their needed health care services receive financial assistance in the form of partial or total charge reductions. Because the hospitals do not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services and supplies furnished under AHERF's charity care policy approximated \$16,324 in fiscal year 1997.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Dollars in Thousands)

2. Accounting Policies: (continued)Charity Care, Uncompensated Care and Other Community Services: (continued)

Additionally, AHERF's facilities provide services to patients covered by Medical Assistance and Medicare, whereby the payments received are less than the costs of providing such services. Also, AHERF's facilities perform services at no charge which benefit the community, such as public health screenings, health care publications, workplace wellness programs, health related research, educational programs and other activities.

Premium Revenue:

AHERF has agreements with various third-party payors to provide medical services to subscribing participants. Under these agreements, AHERF receives monthly capitation payments based on the number of participants, regardless if services are performed by AHERF. In addition, certain third-party payors make fee-for-service payments to AHERF for certain covered services based upon discounted fee schedules. Accruals are recorded on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined for retroactive adjustments for premiums and statistics, and for claims incurred by not yet reported. Additionally, AHERF mitigates a portion of its financial risks by purchasing stop-loss insurance.

AHERF has assumed the risk of managing care for approximately 500,000 covered lives.

Income Taxes:

AHERF, the parent company, is a not-for-profit corporation that has been recognized as tax exempt pursuant to Section 501 (c)(3) of the Internal Revenue Code.

3. Assets Limited or Restricted as to Use:

Assets limited or restricted as to use consist of the following components as of June 30, 1997:

Unrestricted:

By Boards of Trustees:

Future additions or replacement of property and equipment	\$ 215,711
Self-insurance reserve funds	70,117

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1997

(Dollars in Thousands)

3. Assets Limited or Restricted as to Use: (continued)

Endowments	101,877
Other	<u>23,631</u>
	411,336
Debt service funds	64,541
Endowments	<u>99,639</u>
Total unrestricted	575,516
Temporarily restricted:	
By donor	21,952
Student loans	22,186
Endowments	<u>78,692</u>
Total temporarily restricted	122,830
Permanently restricted:	
Endowments	90,357
Perpetual trusts	<u>66,040</u>
Total permanently restricted	<u>156,397</u>
Total assets limited or restricted as to use	854,743
Less current portion	<u>73,922</u>
Assets limited or restricted as to use, net of current portion	<u>\$ 780,821</u>

The following table sets forth the composition of assets limited or restricted as to use by investment type as of June 30, 1997:

Unrestricted:	
Cash and short-term investments	\$ 83,762
Government and corporate obligations	239,259
Marketable equity securities	<u>252,495</u>
Total unrestricted	575,516
Temporarily restricted:	
Cash and short-term investments	27,264
Government and corporate obligations	42,361
Marketable equity securities	<u>53,205</u>
Total temporarily restricted	122,830

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1997
(Dollars in Thousands)

3. Assets Limited or Restricted as to Use: (continued)

Permanently restricted:	
Cash and short-term investments	1,618
Government and corporate obligations	46,172
Marketable equity securities	<u>108,607</u>
Total permanently restricted	<u>156,397</u>
Assets limited or restricted as to use	<u>\$ 854,743</u>

The various Boards of Trustees retain control over certain designated assets and may, at their discretion, subsequently use such assets for other purposes. Assets limited or restricted as to use, including \$8,670 of temporarily restricted funds that are required to satisfy obligations classified as current liabilities, are reported as current assets on the consolidated balance sheet as of June 30, 1997.

Investment returns for the year ended June 30, 1997 consisted of the following:

Net realized gains on investments	\$ 63,459
Dividends and interest	<u>22,494</u>
	<u>\$ 85,953</u>

4. Property and Equipment:

Property and equipment consists of the following components as of June 30, 1997:

Buildings and building improvements	\$ 831,136
Equipment	744,514
Land and land improvements	<u>49,320</u>
	1,624,970
Less accumulated depreciation and amortization	<u>761,415</u>
	863,555
Construction in progress	<u>57,315</u>
Property and equipment, net	<u>\$ 920,870</u>

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1997

(Dollars in Thousands)

5. Line of Credit:

AHERF maintains a \$100,000 working capital line of credit from a consortium of banks with various interest rate options (5.99% at June 30, 1997) with a maturity date of March 7, 2000 and with a commitment fee of 0.2% on the total commitment amount of the line. The amount outstanding under the line was \$57,100 as of June 30, 1997, which borrowings were used to repay the then existing lines of credit balances at which time such lines of credit arrangements were terminated. The most restrictive covenant requires certain AHERF obligated groups to maintain minimum liquidity ratios.

6. Long-Term Debt:

Long-term debt consists of the following obligations as of June 30, 1997:

Pennsylvania Higher Educational Facilities Authority (PHEFA):
Revenue Bonds:

DVOG Series 1996 A-C Health Services Revenue Bonds, net of unamortized discount of \$3,462 (with maturity dates through November 15, 2021 and fixed rates ranging from 4.0% to 5.88%)	\$ 302,688
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DVOG Series 1996 D Health Services Revenue Bonds (with maturity dates through November 15, 2035 and variable interest rates ranging from 2.4% to 4.6% during fiscal year 1997 and at 4.1% on June 30, 1997)	50,000
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AGHOG Series 1991 A Revenue Bonds, net of unamortized discount of \$628 in 1997 (with maturity dates through September 1, 2017 and fixed interest rates ranging from 6.3% to 7.25%)	54,157
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Allegheny County Hospital Development Authority (ACHDA):

AGHOG Series 1995 A and B Hospital Revenue Bonds:

A - net of unamortized discount of \$421 (with maturity dates through September 1, 2020 and fixed interest rates ranging from 4.75% to 6.25%)	48,624
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B - (with maturity dates through September 1, 2020 and variable interest rates ranging from 2.25% to 4.5% during fiscal year 1997 and at 4.15% on June 30, 1997)	49,000
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ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1997
(Dollars in Thousands)

6. Long-Term Debt: (continued)

AGHOG Series 1993 A-C Notes:

A - (with maturity dates through July 1, 2012 and variable interest rates ranging from 5.63 % to 5.95 % during fiscal year 1997 and at 5.94 % on June 30, 1997)	26,500
B - (with maturity dates through January 1, 2012 and a fixed interest rate of 7.85 %)	13,370
C - (with maturity dates through January 1, 2004 and a fixed interest rate of 7.33 %)	11,570

AGHOG Series 1988 A-D Hospital Revenue Bonds (with maturity dates through March 1, 2017 and variable interest rates ranging from 2.35 % to 4.5 % during fiscal year 1997 and at 4.2 % on June 30, 1997)	46,800
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AVH Hospital Revenue Bonds:

Series 1990, net of unamortized discount of \$227 (with maturity dates through August 1, 2020 and fixed interest rates ranging from 7.4 % to 7.75 %)	12,473
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Series 1986 Refunding, net of unamortized discount of \$100 (with maturity dates through August 1, 2013 and fixed interest rates ranging from 7.0 % to 7.5 %)	24,750
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Series 1982 Q, net of unamortized discount of \$282 (with maturity dates through August 1, 2015 and a fixed interest rate of 7.0 %)	5,803
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The Hospitals and Higher Education Facilities Authority of Philadelphia Revenue Bonds:

Graduate Hospital Series 1993 A and B Hospital Revenue Bonds, net of unamortized discount of \$707 (with maturity dates through July 1, 2018 and fixed interest rates ranging from 5 % to 6.25 %)	53,833
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Graduate Hospital Series 1991 A and B Hospital Revenue Bonds, net of unamortized discount of \$3,337 (with maturity dates through July 1, 2021 and fixed interest rates ranging from 6.5 % to 7.25 %)	106,723
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Monroeville Hospital Authority:

FHS Series 1995 Hospital Revenue Bonds, net of unamortized discount of \$966 (with maturity dates through October 1, 2015 and fixed interest rates ranging from 4.5 % to 6.25 %)	36,104
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ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1997

(Dollars in Thousands)

6. Long-Term Debt: (continued)

FHS Series 1992 Hospital Revenue Bonds, net of unamortized discount of \$908 (with maturity dates through October 1, 2013 and fixed interest rates ranging from 6.5% to 7.35%)	42,257
Rancocas Hospital New Jersey Health Care Facilities Financing Authority 1987 Series C Revenue Bonds (with maturity dates through July 1, 2012 and fixed interest rates ranging from 7.6% to 8.5%)	41,040
DVOG Series 1996 E Taxable Notes Payable (with maturity dates through November 15, 2015 and variable interest rates ranging from 5.36% to 5.68% during fiscal year 1997 and at 5.68% on June 30, 1997)	50,978
City Avenue Hospital and Parkview Hospital note payable to the Philadelphia College of Osteopathic Medicine (with maturity dates through July 13, 2023 and an imputed interest rate of 6.00%)	5,920
Other obligations	<u>12,387</u>
	994,977
Less current portion of long-term debt	<u>34,704</u>
Long-term debt	<u>\$ 960,273</u>

All obligations are subject to early redemption at the option of AHERF. AHERF is subject to various debt covenants contained in the agreements which govern the preceding obligations. The most restrictive covenants require certain AHERF obligated groups to maintain minimum annual debt service coverage ratios, liquidity ratios, capitalization ratios, and levels of net assets (refer to Note 17).

Additionally, certain of these bonds are collateralized by the pledge of certain of the respective obligated group's gross revenue, real property, personal property and unrestricted receivables.

AHERF maintains two letter of credit facilities for the DVOG variable rate debt. The letter of credit amounts for the DVOG Series 1996 D Health Services Revenue Bonds and the DVOG Series 1996 E Taxable Notes Payable are \$50,805 and \$54,194, respectively. The master trustee has the ability to draw on such letter of credit facilities in order to make principal and accrued interest payments should the bonds not be remarketed. Both letter of credit facilities have an expiration date of June 10, 1999. The letter of credit facilities require the DVOG to maintain compliance with certain liquidity and debt service coverage ratios.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1997

(Dollars in Thousands)

6. Long-Term Debt: (continued)

Following are scheduled principal repayments and sinking fund requirements on the long-term debt for each of the next five fiscal years:

1998	-	\$ 34,704
1999	-	29,059
2000	-	29,937
2001	-	31,349
2002	-	32,189

FHS has entered into interest rate swap agreements having an aggregate notional principal amount of \$20,000 whereby FHS pays a variable rate and receives a fixed rate of approximately 4.8%. Interest payments (both made and received) pursuant to these swap agreements are based on the notional amounts of the agreements in effect as no funds were actually borrowed. During fiscal year 1997, FHS recognized investment income of approximately \$109 on these swap agreements. The swap agreements subject FHS to market risk associated with changes in interest rates and have an aggregate market value of \$74 as of June 30, 1997.

7. Commitments:

In October 1991, AHERF entered into an agreement to manage the Sidney Hillman Medical Center (SHMC) for a 20 year period. SHMC provides primary and specialty care physician services primarily to members of a garment workers union. Under the terms of the agreement, AHERF subsidizes certain operating losses of SHMC. During fiscal year 1997, such subsidies amounted to \$1,127.

Effective July 1, 1989, AHERF entered into an operating lease agreement with the Commonwealth of Pennsylvania whereby all land and buildings associated with the Eastern Pennsylvania Psychiatric Institute are leased for a term of 25 years at annual rental payments of one dollar. The agreement also specifies provisions for a renewal option for additional terms.

AHERF leases certain medical and office equipment and office space used in its operations. Rental expense for operating leases during the year ended June 30, 1997 was \$62,528. The annual and total future minimum lease payments under noncancelable operating leases entered into as of June 30, 1997 are as follows:

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1997

(Dollars in Thousands)

7. Commitments, continued:

Year	
1998	\$ 55,041
1999	52,204
2000	46,914
2001	37,961
2002	30,419
2003 and thereafter	<u>209,137</u>
Total minimum payments	<u>\$ 431,676</u>

8. Net Patient Service Revenue:

Net patient service revenue for the year ended June 30, 1997 consists of the following components:

Gross patient service revenue	\$ 4,002,633
Less provisions for contractual adjustments	<u>2,299,962</u>
Net patient service revenue	<u>\$ 1,702,671</u>

Contractual adjustments represent the difference between standard billing rates and amounts estimated to be paid under various payor agreements. Provisions for contractual adjustments are recorded in the period in which the services are provided.

During fiscal year 1997, AHERF's bad debt expense amounted to \$66,416, which is included in materials, supplies and services expense on the consolidated statement of operations.

9. Insurance:

AHERF is self-insured for primary coverage and for certain levels of excess coverage related to professional and general liability claims through AHSPIC, Hahnemann Insurance Company (HAHN - an AUHS affiliated captive insurance company incorporated in Vermont), FHS Insurance LTD. (an FHS affiliated captive insurance company incorporated in the Cayman Islands), and various self-insurance trusts. In addition, AHERF participates in the Medical Professional Liability Catastrophic Loss Fund of the Commonwealth of Pennsylvania (CAT Fund) and maintains insurance under commercially insured programs on a claims-made basis for amounts in excess of the self-insurance and CAT Fund coverages. Premiums for the self-insurance coverage are retrospectively rated and are paid to AHSPIC, HAHN, and FHS Insurance LTD. based on funding requirements determined by independent insurance actuaries to include provisions for estimates of the

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1997

(Dollars in Thousands)

9. Insurance, continued:

ultimate costs for both reported claims and claims incurred but not reported, determined on a discounted basis using a 7.50% rate. During fiscal year 1997, AHERF's total professional and general liability insurance expense was \$29,866.

AHERF is also self-insured for workers' compensation liability claims and has established trust funds for the payment of such claims. Funding requirements and estimates of losses incurred are determined on a discounted basis using actuarial assumptions which include a 6.00% discount rate and which are subject to revision based upon actual experience. During fiscal year 1997, total workers' compensation expense was \$13,659.

10. Pension Plans:

AHERF maintains various pension plans covering substantially all of its employees. Union employees are covered by multi-employer pension plans to which AHERF contributes based on individual plan policies and actuarial valuations. Expenses in fiscal year 1997 pertaining to the multi-employer pension plans amounted to \$3,697. Noncontributory, defined benefit pension plans cover substantially all other full-time employees (the Plans). Pension benefits generally depend upon age, length of service and remuneration. AHERF's funding policy is to contribute such amounts as are necessary on an actuarial basis to provide the Plans with assets sufficient to meet benefits to be paid to retirees or their beneficiaries and to satisfy the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

Net pension cost related to the defined benefit plans for the year ended June 30, 1997 includes the following components:

Service cost-benefits earned during the period	\$ 23,784
Interest cost on projected benefit obligation	19,976
Actual return on assets	(25,233)
Net amortization and deferral	<u>1,800</u>
Net pension cost	<u>\$ 20,327</u>

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1997

(Dollars in Thousands)

10. Pension Plans, continued:

The following table sets forth the consolidated funded status of the defined benefit plans as of June 30, 1997:

	<u>Overfunded Plans</u>	<u>Underfunded Plans</u>
Actuarial present value of benefit obligation:		
Vested benefit obligation	\$ (80,844)	\$ (173,202)
Non-vested benefit obligation	<u>(1,282)</u>	<u>(9,723)</u>
Accumulated benefit obligation	(82,126)	(182,925)
Effect of projected future compensation levels	<u>(11,350)</u>	<u>(239)</u>
Projected benefit obligation	(93,476)	(183,164)
Plan assets at fair value (primarily listed equity securities, convertible securities and bonds)	<u>103,543</u>	<u>150,603</u>
Funded status - projected benefit obligation in (excess of)/less than plan assets	10,067	(32,561)
Unrecognized prior service credit due to plan amendments	(978)	(6,884)
Unrecognized net gain from past experience different from that assumed	(274)	(8,836)
Unrecognized net asset arising at transition	(15,311)	(227)
Funding contributions	<u>-</u>	<u>2,480</u>
Accrued pension liability	<u>\$ (6,496)</u>	<u>\$ (45,574)</u>

Significant assumptions used to determine the projected benefit obligation and assets of the plans include:

Discount rate	7.50% - 8.25%
Rate of increase in compensation levels	3.50% - 5.00%
Expected long-term rate of return on assets	6.00% - 9.50%

AHERF sponsors a contributory, defined contribution savings plan, which is available to substantially all AHERF employees in order to provide additional security during retirement by creating an incentive for employees to make regular contributions on their own behalf. Under this plan and as determined on an individual employee basis, AHERF contributes an amount equal to 25% of an employee's contribution up to 4% of such employee's salary in a given year. AHERF's expense associated with contributions to this savings plan was \$4,728 for the year ended June 30, 1997.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1997

(Dollars in Thousands)

11. Functional Expenses:

AHERF provides general health care services through its hospitals, and education services through its university, and performs medical research through its research institute. Expenses related to these services for the year ended June 30, 1997 are as follows:

Health care services	\$ 1,634,904
Education services	83,693
Medical research	66,368
General and administrative	<u>248,076</u>
	<u>\$ 2,033,041</u>

12. Concentrations of Credit Risk:

AHERF grants credit without collateral to its patients, most of whom are local residents insured under third-party payor agreements. The following percentages represent the mix of receivables from patients and third-party payors as of June 30, 1997 and do not represent the volume of services by such payors:

Medicare	22%
Medicaid	16
Blue Cross	10
Managed care	25
Other third-party payors	17
Patients	<u>10</u>
	<u>100%</u>

13. Fair Value of Financial Instruments:

The following methods and assumptions were used in estimating the fair value of AHERF's financial instruments:

Cash and cash equivalents: The carrying value reported in the consolidated balance sheet for cash and cash equivalents approximates their fair value.

Short-term investments: The carrying value reported in the consolidated balance sheet for short-term investments approximates their fair value.

Assets limited or restricted as to use: These assets consist primarily of government and corporate obligations, marketable domestic and international equity securities, cash and short-term investments. For government and corporate obligations and marketable equity securities, fair values were determined based on quoted market prices and dealer quotes where available, or quoted market prices pertaining to similar securities where not available. The carrying value reported in the consolidated balance sheet for all assets limited or restricted as to use approximates their fair value.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1997

(Dollars in Thousands)

13. Fair Value of Financial Instruments, continued:

Student loans receivable: Determination of the fair value of student loans receivable, which are primarily federally sponsored student loans with U.S. Government mandated interest rates and repayment terms and subject to significant restrictions as to their transfer or disposition, could not be made without incurring excessive costs.

Long-term debt: The fair value of all obligations included in long-term debt is based on current traded values. The carrying and fair values of AHERF's long-term debt obligations (excluding capital leases) are \$984,011 and \$1,013,376, respectively, as of June 30, 1997.

14. Legal Matters:

AHERF is subject to legal proceedings and claims which have arisen in the ordinary course of its business and have not yet been adjudicated. The ultimate liability from these actions cannot be determined because of the uncertainties that exist. In the opinion of management, the eventual disposition of these matters will not have a material adverse effect on the consolidated financial position of AHERF. However, it is possible that, upon settlement, results of operations or cash flows in a particular period could be materially affected.

AHERF is subject to compliance with laws and regulations of various governmental agencies. Recently, governmental review of compliance with these laws and regulations has increased as well as compliance review by other third-party payors, resulting in fines and penalties for noncompliance by individual health care providers.

15. Business Combinations:

As discussed in Note 1, FHS, AVH and certain hospitals of the Graduate Health System became part of AHERF via statutory mergers. These mergers have been accounted for under the purchase method with the purchase price being the amount of the respective hospital's outstanding liabilities assumed by AHERF at the date of acquisition. The purchase price of the acquisitions has been allocated based on the fair value of the assets acquired and liabilities assumed. The operations of the acquired hospitals have been included in the accompanying consolidated financial statements from their respective dates of acquisition.

The following unaudited pro forma financial information presents the results of operations of the acquired hospitals as if the acquisitions had occurred at the beginning of fiscal year 1997 and the balance sheet information of the acquired hospitals at the respective acquisition dates. The following unaudited pro forma financial results are not necessarily indicative of the actual results that would have occurred nor is it indicative of future results of operations of the acquired hospitals.

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1997

(Dollars in Thousands)

15. Business Combinations: (continued)

(Unaudited Pro Forma Information)

	Forbes Health System	Allegheny Valley Health System	Former Graduate Health System Entities
Pro Forma Statement of Operations for the year ended June 30, 1997			
Total revenue	\$160,673	\$81,167	\$403,654
Operating expenses	142,733	71,199	405,051
Restructuring expenses	-	-	49,062
Income/(loss) from operations	<u>\$17,940</u>	<u>\$9,968</u>	<u>(\$50,459)</u>

Balance Sheet Information at Date of Acquisition

Current assets	\$18,230	\$9,299	\$94,925
Assets limited or restricted as to use, net of current portion	133,167	49,514	75,737
Property and equipment, net	-	302	167,489
Other assets	9,004	102	120,572
Total assets	<u>\$160,401</u>	<u>\$59,217</u>	<u>\$458,723</u>
Current liabilities	\$27,484	\$10,335	\$149,840
Long-term debt	75,900	43,586	211,558
Other noncurrent liabilities	39,478	5,296	72,195
Total liabilities	142,862	59,217	433,593
Net assets:			
Unrestricted	-	-	-
Temporarily restricted	-	-	18,015
Permanently restricted	17,539	-	7,115
Total net assets	<u>17,539</u>	<u>-</u>	<u>25,130</u>
Total liabilities and net assets	<u>\$160,401</u>	<u>\$59,217</u>	<u>\$458,723</u>

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1997

(Dollars in Thousands)

16. Subsequent Events:

In July 1997, Canonsburg General Hospital (CGH) became part of AUMC via a statutory merger. CGH joins FHS and AVH as members of AUMC. CGH is a 120 bed facility with 92 acute-care beds and 28 skilled nursing/sub-acute beds.

In September, 1997 AHERF entered into a \$30,000 operating lease program, which will be used to finance certain equipment needs of AHERF.

17. Debt Covenants:

The Allegheny Hospitals, Centennial Obligated Group (Obligated Group) was not in compliance with its debt service coverage ratio covenant for the twelve-month period ended June 30, 1997. As a result of such noncompliance, under the master trust indenture, the Obligated Group was required to retain a consultant to make recommendations with respect to the Obligated Group's methods of operations and the factors affecting its financial condition. AHERF was chosen as such consultant and has promulgated its recommendations to the Obligated Group. Accordingly, the Graduate Hospital Series 1993 A and B and 1991 A and B Hospital Revenue Bonds have been classified as noncurrent liabilities in the accompanying consolidated balance sheet.

For the two quarterly periods ended September 30, 1997 and December 31, 1997, AHERF did not comply with a liquidity ratio under certain of its line of credit debt with respect to the DVOG. For the quarterly period ended December 31, 1997, the DVOG did not comply with certain liquidity ratios under certain letter of credit agreements associated with certain long-term debt. The potential also exists that the DVOG may not meet its debt service coverage ratio related to certain long-term debt for the fiscal year ending June 30, 1998. Management of AHERF and the DVOG have and will be taking steps to cure the present and any anticipated noncompliance issues in an effort to satisfy the conditions set forth in such agreements and to prevent these existing and potential noncompliance events from becoming events of default.

Coopers
& Lybrand

Coopers & Lybrand L.L.P.

a professional services firm

Report of Independent Accountants on Consolidating and
Combining Financial Information

Our report on the audit of the consolidated financial statements of Allegheny Health, Education and Research Foundation as of June 30, 1997, and for the year then ended appears on page 1. This audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary consolidating and combining financial information accompanying the consolidated financial statements is not necessary for fair presentation of the consolidated financial position, results of operations, changes in net assets and cash flows of Allegheny Health, Education and Research Foundation in conformity with generally accepted accounting principles. The supplementary consolidating and combining financial information is presented only for purposes of additional analysis and is not a required part of the consolidated and combining financial statements. The supplementary consolidating financial information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Coopers & Lybrand L.L.P.

Pittsburgh, Pennsylvania

September 4, 1997, except for the second paragraph of Note 16 which is dated September 12, 1997, and Note 17 which is dated January 8, 1998

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION
 CONSOLIDATING BALANCE SHEET
 as of June 30, 1997
 (Dollars in thousands)
 ASSETS

	Allegheny General Hospital	Allegheny University Medical Center	Delaware Valley Osteop. Group	Allegheny Hospital, Centennial	Allegheny Hospital, New Jersey	Allegheny Integrated Health Group	Allegheny Singer Research Institute	AHERF Operations	Elim.	Consolidated AHERF
Current assets										
Cash and cash equivalents	\$ 4,962	\$ 8,379	\$ 20,444	\$ 968	\$ 1,318	\$ 654	\$ -	\$ (16,603)	\$ -	\$ 20,316
Short-term investments	2,901	-	6	500	-	391	-	-	-	3,604
Assets limited or restricted as to use	4,443	2,900	76,167	11,655	3,300	-	-	23,167	-	73,922
Receivables	54,138	37,004	201,914	69,632	9,022	33,999	-	1,342	-	365,061
Prepaid accounts, net	7,393	1,379	40,312	10,849	344	3,743	-	24,842	2,011	92,119
Grants and other	10,237	2,270	12,733	7,330	396	-	-	192	-	33,466
Investments	1,349	1,689	4,250	3,654	340	-	-	10,014	(4,399)	15,160
Prepaid expenses	-	-	-	-	-	-	-	-	-	-
Total current assets	\$ 80,343	\$ 44,031	\$ 306,144	\$ 87,436	\$ 14,330	\$ 28,997	\$ 1,106	\$ 44,914	\$ (2,343)	\$ 606,036
Assets limited or restricted as to use, net										
of current portion	172,486	104,344	200,322	30,240	11,764	-	-	363,611	(114,144)	780,621
Property and equipment, net	231,388	4,234	476,191	144,123	23,334	-	149	41,645	(414)	920,870
Due from affiliates	28,810	-	-	-	-	-	84	292,487	(122,601)	-
Other assets	60,093	7,419	41,638	109,834	20,073	1,544	-	101,068	(31,703)	315,933
Total assets	\$ 580,240	\$ 249,223	\$ 1,018,295	\$ 369,633	\$ 69,661	\$ 30,541	\$ 1,239	\$ 745,975	\$ (421,107)	\$ 2,632,600
LIABILITIES AND NET ASSETS										
Current liabilities										
Accounts payable and accrued expenses	\$ 38,037	\$ 24,419	\$ 126,683	\$ 68,077	\$ 11,615	\$ 24,974	\$ 604	\$ 171,232	\$ 1	\$ 489,532
Deferred revenue	-	-	17,822	1,142	-	-	1,399	-	(1,991)	16,373
Line of credit	-	-	57,109	-	-	-	-	-	-	57,109
Current portion of long-term debt	7,567	3,462	12,803	7,912	3,912	23	-	23	-	34,704
Total current liabilities	\$ 66,404	\$ 27,881	\$ 217,409	\$ 77,131	\$ 14,527	\$ 24,999	\$ 2,003	\$ 171,233	\$ (1,990)	\$ 597,699
Long-term debt, net of current portion	\$ 242,454	\$ 118,120	\$ 396,470	\$ 166,023	\$ 38,271	\$ 0	\$ 0	\$ 807	\$ -	\$ 960,271
Self-insurance liabilities	\$ 1,101	\$ 1,101	\$ 2,330	\$ -	\$ -	\$ -	\$ -	\$ 83,220	\$ -	\$ 85,341
Due to affiliates	\$ 16,432	\$ 16,432	\$ 40,992	\$ 100,249	\$ 13,416	\$ 15,140	\$ -	\$ 251,163	\$ (437,589)	\$ -
Other noncurrent liabilities	\$ 16,191	\$ 41,120	\$ 19,696	\$ 13,006	\$ 73	\$ 13,000	\$ -	\$ 78,617	\$ (31,606)	\$ 149,101
Total liabilities	\$ 325,049	\$ 205,092	\$ 678,089	\$ 335,441	\$ 66,787	\$ 53,636	\$ 2,003	\$ 385,652	\$ (475,393)	\$ 1,796,914
Net assets:										
Unrestricted	332,656	16,189	191,270	10,335	7,069	(23,093)	(792)	98,246	23,338	508,796
Restricted	3,576	-	76,997	17,716	1,335	-	48	12,079	(1,043)	110,736
Temporarily	7,339	18,932	80,119	7,121	-	-	-	30,528	(20,107)	144,212
Permanently	-	-	-	-	-	-	-	-	-	-
Total net assets	\$ 353,191	\$ 35,141	\$ 248,406	\$ 35,222	\$ 3,994	\$ (23,093)	\$ (744)	\$ 140,853	\$ 4,188	\$ 824,746
Total liabilities and net assets	\$ 678,240	\$ 240,233	\$ 1,018,295	\$ 369,633	\$ 69,661	\$ 30,541	\$ 1,239	\$ 745,973	\$ (421,207)	\$ 2,632,610

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION
CONSOLIDATING STATEMENT OF OPERATIONS
For the year ended June 30, 1997
(Dollars in Thousands)

	Allegheny General Hospital	Allegheny University Medical Centers	Allegheny Valley Obligated Group	Allegheny Hospitals, Centennial	Allegheny Hospitals, New Jersey	Allegheny Integrated Health Group	Allegheny Singer- Research Institute	Allegheny Operations	Elim.	Consolidated AHERF
Unrestricted revenues, gains and other support:										
Net patient service revenue	\$ 441,088	\$ 103,059	\$ 956,980	\$ 64,843	\$ 16,699	\$ 117,589	\$ -	\$ 2,413	\$ -	\$ 1,702,671
Research and training support	-	-	66,077	96	-	-	9,440	-	(4,089)	71,524
Academic activities	-	-	64,434	-	-	-	-	-	-	64,434
Investment income/(loss)	20,470	6,882	17,796	1,006	1,173	(1,021)	299	45,601	(6,453)	83,953
Net assets released from restrictions used for operations	1,081	741	8,386	189	-	-	169	36,663	-	47,229
Other revenue	15,192	1,962	63,941	2,138	378	9,400	24	42,584	(52,463)	81,156
Total revenues, gains and other support	477,831	112,644	1,177,614	68,272	18,450	125,968	9,932	127,261	(63,005)	2,054,967
Expenses:										
Salaries, wages and fringe benefits	197,392	53,130	661,370	26,048	7,743	130,355	4,829	106,587	147	1,187,601
Materials, supplies and services	224,748	37,136	411,078	27,802	6,293	48,682	10,003	(13,677)	(51,911)	700,154
Depreciation and amortization	30,873	(1,386)	57,099	1,746	678	8,319	883	9,479	-	107,691
Interest	12,975	3,707	24,366	2,369	545	33	53	-	(6,453)	37,595
Total expenses	465,988	92,507	1,153,913	57,965	15,259	187,389	15,768	102,389	(58,217)	2,033,041
Net income/(loss)	11,843	20,057	23,701	10,307	3,191	(61,421)	(5,836)	24,872	(4,788)	21,926
Net assets released from restrictions used for acquisition of property and equipment	167	-	228	-	-	-	-	-	-	395
Unrealized appreciation/(depreciation) of investments	(1,191)	4,188	(7,915)	40	(1,078)	-	-	(3,190)	-	(9,146)
Transfers to other net assets	-	-	(1,667)	-	-	-	-	-	-	(1,667)
Transfers (to)/from affiliates, net	31,620	(8,007)	25,997	(72)	(44)	328	(13,188)	(43,715)	7,081	-
Other	-	(49)	1	-	-	(1,076)	3	170	3	(948)
Increase/(decrease) in unrestricted net assets	\$ 42,439	\$ 16,189	\$ 40,345	\$ 10,275	\$ 2,069	\$ (62,162)	\$ (19,021)	\$ (21,863)	\$ 2,296	\$ 10,560

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ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION
CONSOLIDATING STATEMENTS OF CHANGES IN NET ASSETS
For the year ended June 30, 1997
(Dollar in Thousands)

	Allegheny General Hospital	Allegheny University Medical Centers	Allegheny Valley Obligated Group	Allegheny Hospitals Centennial	Allegheny Hospitals New Jersey	Allegheny Integrated Health Group	Allegheny Research Institute	Allegheny Operations	Elim.	Consolidated AHERF
Unrestricted net assets:										
Net income/(loss)	\$ 1,543	\$ 20,037	\$ 21,701	\$ 10,107	\$ 3,391	\$ (4,321)	\$ (5,034)	\$ 24,872	\$ (4,788)	\$ 21,526
Net assets released from restrictions used for acquisition of property and equipment	167	-	228	-	-	-	-	-	-	395
Unrealized appreciation/(depreciation) of investments	(1,191)	4,180	(7,815)	40	(1,078)	-	-	(1,190)	-	(5,146)
Transfers to other net assets	-	-	(1,047)	-	-	-	-	-	-	(1,047)
Transfers (to)/from affiliates	31,620	(8,007)	23,997	(72)	(44)	328	(11,183)	(41,715)	2,081	(6,671)
Other	-	(49)	-	-	-	(1,076)	-	170	-	(906)
Increase/(decrease) in unrestricted net assets	92,019	16,189	40,243	10,275	2,069	(62,169)	(18,021)	(21,162)	2,296	10,560
Temporarily restricted net assets:										
Contributions	1,506	-	10,191	49	50	-	141	-	-	12,111
Investment income	1,048	-	19,047	116	-	-	2,019	-	-	22,011
Net assets released from restrictions	(1,240)	-	(6,014)	(109)	-	-	(169)	-	(177)	(6,809)
Unrealized appreciation/(depreciation) of investments	265	-	(2,201)	910	-	-	(1,002)	(4,068)	-	(6,060)
Transfers from other net assets	-	-	2,471	-	-	-	(5,472)	-	-	2,471
Transfers (to)/from affiliates	(110)	-	3,040	16,740	1,373	-	-	-	(106)	18,015
Acquisition of affiliates	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Increase/(decrease) in temporarily restricted net assets	1,261	-	26,944	17,776	1,325	(6,410)	(4)	(60,707)	(182)	1,004
Permanently restricted net assets:										
Contributions	4,315	-	2,609	36	-	-	-	-	-	7,160
Investment income	-	715	370	-	-	-	-	-	-	1,101
Unrealized appreciation of investments	-	1,419	1,887	-	-	-	-	6,712	-	9,448
Transfers to other net assets	-	-	(808)	-	-	-	-	-	-	(808)
Transfers (to)/from affiliates	1,150	-	8,946	-	-	-	(5,986)	-	(4,110)	2,654
Acquisition of affiliates	-	17,319	-	2,115	-	-	-	-	-	19,434
Other	-	(281)	-	-	-	-	-	-	-	(281)
Increase/(decrease) in permanently restricted net assets	5,985	18,912	12,806	2,171	-	(5,986)	(5,986)	6,712	(9,110)	41,610
Increase/(decrease) in net assets	49,663	35,141	80,103	33,232	3,394	(62,169)	(30,417)	(55,400)	(1,107)	11,914
Net assets, beginning of year	213,316	299,721	348,405	348,405	348,405	348,405	348,405	348,405	348,405	348,405
Net assets, end of year	262,979	334,862	428,508	381,637	351,799	286,236	317,988	292,995	347,298	360,319

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ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION
CONSOLIDATING STATEMENT OF CASH FLOWS
For the year ended June 30, 1997
(Dollars in thousands)

	Allegeny General Hospital	Allegeny University Medical Centers	Delaware Valley Obligated Group	Allegeny Hospitals, Centennial	Allegeny Hospitals, New Jersey	Allegeny Integrated Health Group	Allegeny Singer- Research Institute	AHERF Operations	Elim	Consolidated AHERF
Cash flows from operating activities:										
Change in net assets	\$ 48,468	\$ 11,141	\$ 10,155	\$ 11,772	\$ 1,394	\$ (62,168)	\$ (19,417)	\$ (15,040)	\$ 12,197	\$ 11,924
Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities:										
Depreciation and amortization	18,931	(1,106)	57,090	1,746	630	8,319	681	9,179	-	107,681
Net realized (gains)/losses on equity investments	(1,009)	-	-	-	-	1,117	-	-	-	107
Equipment valuation adjustments	(74,924)	-	(16,196)	-	-	(2,364)	-	44,071	-	(12,204)
Transfers to/from affiliates	-	(17,119)	(17,101)	(24,184)	(640)	-	11,102	-	-	(41,668)
Net assets balances related to business combinations	-	-	-	(100)	-	(101)	4,919	(151)	-	7,476
Increase/(decrease) in cash from changes in:										
Short-term investments	3,534	(10,016)	2,443	(1,177)	(419)	(9,192)	(13,366)	(11,232)	9,463	(46,031)
Receivables	(9,165)	20	16	(1,719)	(419)	71	195	195	-	(1,647)
Inventories	(692)	16	16	(1,186)	(419)	488	6	216	5,064	5,337
Prepaid expenses	(416)	1,000	(1,000)	(1,000)	(1,000)	10,407	119	64,919	16	41,371
Accounts payable and accrued expenses	6,089	(10,718)	4,984	(19,601)	(12,311)	-	(1,000)	(11,816)	2,014	(9,316)
Deferred revenue	(518)	161	(2,110)	-	(916)	-	(1,371)	(1,371)	-	(2,348)
Self-insurance liabilities	(59)	(316)	(1,402)	(1,021)	(12)	(1,312)	(15,113)	2,174	(1,321)	(18,249)
Other	(59)	(316)	(1,402)	(1,021)	(12)	(1,312)	(15,113)	2,174	(1,321)	(18,249)
Net cash provided/(used) by operating activities	\$ 3,107	\$ (1,011)	\$ 46,600	\$ (28,264)	\$ (1,533)	\$ 21,356	\$ (9,763)	\$ 10,047	\$ 11,891	\$ 76,391
Cash flows from investing activities:										
Acquisition of property and equipment, net	(12,911)	(4,190)	(31,418)	(4,208)	(177)	(11,388)	(618)	(15,064)	-	(112,809)
Acquisition of physician practice assets, net	-	-	-	-	-	(12,709)	-	-	-	(12,709)
Acquisition of physician practice intangible assets	-	-	-	-	-	(10,064)	-	-	-	(10,064)
Proceeds from sale of property and equipment	31,080	(1,910)	(23,800)	(480)	2330	6,319	6,319	(44,210)	11,886	4,276
Decrease/(increase) in assets limited or restricted as to use, net	(1,747)	1,311	-	4,096	3,611	1,343	-	3,016	(711)	11,945
Cash balances related to business combinations	-	-	-	-	-	-	-	-	-	-
Net cash provided/(used) by investing activities	\$ 17,422	\$ (4,778)	\$ (77,104)	\$ (7)	\$ 3,644	\$ (11,419)	\$ 5,701	\$ (39,370)	\$ 11,111	\$ (2,622)
Cash flows from financing activities:										
Net drawdowns/(repayments) on lines of credit	-	-	16,300	(6,158)	-	-	-	-	-	10,142
Due to/from affiliate	(4,702)	16,032	6,940	35,356	1,431	2,811	3,316	61,142	(17,004)	106,952
Issuance/(repayments) of long-term debt	(14,602)	(613)	130	(104)	(1,734)	(923)	21	(1,734)	-	(18,232)
Net cash provided/(used) by financing activities	\$ (19,104)	\$ 15,910	\$ 21,060	\$ 25,214	\$ 1,427	\$ 1,632	\$ 3,337	\$ (1,111)	\$ (17,004)	\$ (1,091)
Net increase/(decrease) in cash and cash equivalents	\$ 3,225	\$ 8,719	\$ (6,810)	\$ 966	\$ 1,216	\$ 765	\$ (710)	\$ 11,600	\$ -	\$ 16,977
Cash and cash equivalents, beginning of year	\$ 1,717	\$ -	\$ 22,782	\$ -	\$ -	\$ 91	\$ 710	\$ (10,201)	\$ -	\$ 1,919
Cash and cash equivalents, end of year	\$ 4,942	\$ 8,719	\$ 15,972	\$ 966	\$ 1,216	\$ 856	\$ -	\$ 1,499	\$ -	\$ 18,916
Supplemental disclosures:										
Cash paid for interest, net of capitalized interest	\$ 11,121	\$ 2,419	\$ 16,017	\$ 964	\$ 12	\$ 16	\$ -	\$ -	\$ -	\$ 20,542

ALLEGHENY UNIVERSITY MEDICAL CENTERS

CONSOLIDATING BALANCE SHEET

as of June 30, 1997
(Dollars in Thousands)

ASSETS

	Forbes Hospitals	Allegheny Valley Hospital	\$151	Elim.	Consolidated AUMC
Current assets:					
Cash and cash equivalents	\$ 5,149	\$ 2,692	\$ 888	\$ -	\$ 8,729
Assets limited or restricted as to use	2,960	-	-	-	2,960
Receivables:					
Patient accounts, net	16,621	10,103	-	-	27,004
Grants and other	1,000	364	15	-	1,379
Inventories	1,969	321	-	-	2,290
Prepaid expenses	466	1,270	3	-	1,899
Total current assets	28,145	14,980	906	-	44,031
Assets limited or restricted as to use, net					
of current portion	131,850	51,719	967	-	184,544
Property and equipment, net	3,053	1,101	-	-	4,234
Other assets	7,805	34	530	(165)	7,424
Total assets	\$ 170,061	\$ 62,914	\$ 2,423	\$ (165)	\$ 240,233
LIABILITIES AND NET ASSETS					
Current liabilities:					
Accounts payable and accrued expenses	\$ 17,058	\$ 7,127	\$ 234	\$ -	\$ 24,419
Current portion of long-term debt	2,682	780	-	-	3,462
Total current liabilities	19,740	7,907	234	-	27,881
Long-term debt, net of current portion	75,904	42,246	-	-	118,150
Self-insurance liabilities	-	-	1,301	-	1,301
Due to affiliates	12,313	4,319	-	-	16,632
Other noncurrent liabilities	35,532	5,593	-	-	41,129
Total liabilities	143,490	60,067	1,535	-	205,092
Net assets:					
Unrestricted	7,619	1,847	808	(165)	16,189
Restricted:					
Permanently	18,932	-	-	-	18,932
Total net assets	26,551	2,647	808	(165)	35,141
Total liabilities and net assets	\$ 170,061	\$ 62,914	\$ 2,423	\$ (165)	\$ 240,233

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